

UNION BANK OF THE PHILIPPINES, PETITIONER, VS. ALAIN JUNIAT, WINWOOD APPAREL, INC., WINGYAN APPAREL, INC., NONWOVEN FABRIC PHILIPPINES, RESPONDENTS.

G.R. No. 171569. August 01, 2011

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

To have a binding effect on third parties, a contract of pledge must appear in a public instrument.[1]

This Petition for Review on Certiorari[2] under Rule 45 of the Rules of Court assails the June 23, 2005 Decision[3] and the February 9, 2006 Resolution[4] of the Court of Appeals (CA) in CA-G.R. CV No. 66392.

Factual Antecedents

Petitioner Union Bank of the Philippines (Union Bank) is a universal banking corporation organized and existing under Philippine laws.[5]

Respondents Winwood Apparel, Inc. (Winwood) and Wingyan Apparel, Inc. (Wingyan) are domestic corporations engaged in the business of apparel manufacturing.[6] Both respondent corporations are owned and operated by respondent Alain Juniat (Juniat), a French national based in Hongkong.[7] Respondent Nonwoven Fabric Philippines, Inc. (Nonwoven) is a Philippine corporation engaged in the manufacture and sale of various types of nonwoven fabrics.[8]

On September 3, 1992, petitioner filed with the Regional Trial Court (RTC) of Makati, Branch 57, a Complaint[9] with prayer for the issuance of ex-parte writs of preliminary attachment and replevin against Juniat, Winwood, Wingyan, and the person in possession of the mortgaged motorized sewing machines and equipment.[10] Petitioner alleged that Juniat, acting for and in behalf of Winwood and Wingyan, executed a promissory note[11] dated April 11, 1992 and a Chattel Mortgage[12] dated March 27, 1992 over several motorized sewing machines and other allied equipment to secure their obligation arising from export bills transactions to petitioner in the amount of P1,131,134.35;[13] that as additional security for the obligation, Juniat executed a Continuing Surety Agreement[14] dated April 11, 1992 in favor of petitioner;[15] that the loan remains unpaid;[16] and that the mortgaged motorized sewing machines are insufficient to answer for the obligation.[17]

On September 10, 1992, the RTC issued writs of preliminary attachment and replevin in favor of petitioner.[18] The writs were served by the Sheriff upon Nonwoven as it was in possession of the motorized sewing machines and equipment.[19] Although Nonwoven was not impleaded in the complaint filed by petitioner, the RTC likewise served summons upon Nonwoven since it was in possession of the motorized sewing machines and equipment.[20]

On September 28, 1992, Nonwoven filed an Answer,[21] contending that the unnotarized Chattel Mortgage executed in favor of petitioner has no binding effect on Nonwoven and that it has a better title over the motorized sewing machines and equipment because these were assigned to it by Juniat pursuant to their Agreement[22]

dated May 9, 1992.[23] Juniat, Winwood, and Wingyan, on the other hand, were declared in default for failure to file an answer within the reglementary period.[24]

On November 23, 1992, petitioner filed a Motion to Sell Chattels Seized by Replevin,[25] praying that the motorized sewing machines and equipment be sold to avoid depreciation and deterioration.[26] However, on May 18, 1993, before the RTC could act on the motion, petitioner sold the attached properties for the amount of P1,350,000.00.[27]

Nonwoven moved to cite the officers of petitioner in contempt for selling the attached properties, but the RTC denied the same on the ground that Union Bank acted in good faith.[28]

Ruling of the Regional Trial Court

On May 20, 1999, the RTC of Makati, Branch 145,[29] rendered a Decision[30] in favor of petitioner. The RTC ruled that both the Chattel Mortgage dated March 27, 1992 in favor of petitioner and the Agreement dated May 9, 1992 in favor of Nonwoven have no obligatory effect on third persons because these documents were not notarized.[31] However, since the Chattel Mortgage in favor of petitioner was executed earlier, petitioner has a better right over the motorized sewing machines and equipment under the doctrine of "first in time, stronger in right" (*prius tempore, potior jure*).[32] Thus, the RTC disposed of the case in this wise:

WHEREFORE, above premises considered, judgment is hereby rendered as follows:

- 1.] Declaring the [petitioner] UNION BANK OF THE PHILIPPINES, as having the better right to the goods and/or machineries subject of the Writs of Preliminary Attachment and Replevin issued by this Court on September 10, 1992.
- 2.] Declaring the [petitioner] as entitled to the proceeds of the sale of the subject machineries in the amount of P1,350,000.00;
- 3.] Declaring [respondents] Allain Juniat, Winwood Apparel, Inc. and Wingyan Apparel, Inc. to be jointly and severally liable to the [petitioner], for the deficiency between the proceeds of the sale of the machineries subject of this suit [P1,350,000.00] and original claim of the plaintiff [P1,919,907.03], in the amount of P569,907.03, with legal interest at the rate of 12% per annum from date of this judgment until fully paid; and
- 4.] Declaring [respondents] Allain Juniat, Winwood Apparel, Inc. and Wingyan Apparel, Inc. to be jointly and severally liable to the [petitioner] for the amount of P50,000.00 as reasonable attorneys fees; and
- 5.] Cost of this suit against the [respondents].

SO ORDERED.[33]

Nonwoven moved for reconsideration[34] but the RTC denied the same in its Order[35] dated July 14, 1999.

Ruling of the Court of Appeals

On appeal, the CA reversed the ruling of the RTC. The CA ruled that the contract of pledge entered into between Juniat and Nonwoven is valid and binding, and that the motorized sewing machines and equipment were ceded to Nonwoven by Juniat by virtue of a *dacion en pago*. [36] Thus, the CA declared Nonwoven entitled to the proceeds of the sale of the attached properties.[37] The fallo reads:

WHEREFORE, premises considered, the assailed decision is hereby REVERSED and SET ASIDE. [Petitioner] Union Bank of the Philippines is hereby DIRECTED to pay Nonwoven Fabric Philippines, Inc. P1,350,000.00, the amount it holds in escrow, realized from the May 18, 1993 sale of the machineries to avoid deterioration during pendency of suit. No pronouncement as to costs.

SO ORDERED.[38]

Petitioner sought reconsideration[39] which was denied by the CA in a Resolution[40] dated February 9, 2006.

Issues

Hence, the present recourse where petitioner interposes the following issues:

- Whether x x x the Court of Appeals committed serious reversible error in setting aside the Decision of the trial court holding that Union Bank of the Philippines had a better right over the machineries seized/levied upon in the proceedings before the trial court and/or the proceeds of the sale thereof;
- Whether x x x the Court of Appeals seriously erred in holding that [Nonwoven] has a valid claim over the subject sewing machines.[41]

Petitioner's Arguments

Echoing the reasoning of the RTC, petitioner insists that it has a better title to the proceeds of the sale.[42] Although the Chattel Mortgage executed in its favor was not notarized, petitioner insists that it is nevertheless valid, and thus, has preference over a subsequent unnotarized agreement.[43] Petitioner further claims that except for the said agreement, no other evidence was presented by Nonwoven to show that the motorized sewing machines and equipment were indeed transferred to them by Juniat/Winwood/Wingyan.[44]

Respondent Nonwoven's Arguments

Nonwoven, on the other hand, claims ownership over the proceeds of the sale under Article 1544[45] of the Civil Code on double sale, which it claims can be applied by analogy in the instant case.[46] Nonwoven contends that since its prior possession over the motorized sewing machines and equipment was in good faith, it has a better title over the proceeds of the sale.[47] Nonwoven likewise maintains that petitioner has no right over the proceeds of the sale because the Chattel Mortgage executed in its favor was unnotarized, unregistered, and without an affidavit of good faith.[48]

Our Ruling

The petition has merit.

Nonwoven lays claim to the attached motorized sewing machines and equipment pursuant to the Agreement it entered into with Juniat, to wit:

Hong Kong, 9[th] May, 1992

With reference to talks held this morning at the Holiday Inn Golden Mile Coffee Shop, among the following parties:

- a. Redflower Garments Inc. - Mrs. Maglipon
- b. Nonwoven Fabrics Phils. Inc. - Mr. J. Tan
- c. Winwood Apparel Inc./Wing Yan Apparel, Inc. - Mr. A. Juniat, Mrs. S. Juniat

IT WAS AGREED THAT:

- a. Settlement of the accounts between Nonwoven Fabrics Phils. Inc. and Winwood Apparel Inc./Wing Yan Apparel, Inc. should be effected as agreed through partial payment by L/C with the balance to be settled at a later date for which Winwood Apparel, Inc. agrees to consign 94 sewing machines, 3 snap machines and 2 boilers, presently in the care of Redflower Garments Inc., to the care of Nonwoven Fabrics Phils., Inc. as guarantee. Meanwhile, Nonwoven will resume delivery to Winwood/Win Yang as usual.

x x x[49] (Emphasis supplied.)

It insists that since the attached properties were assigned or ceded to it by Juniat, it has a better right over the proceeds of the sale of the attached properties than petitioner, whose claim is based on an unnotarized Chattel Mortgage.

We do not agree.

Indeed, the unnotarized Chattel Mortgage executed by Juniat, for and in behalf of Wingyan and Winwood, in favor of petitioner does not bind Nonwoven.[50] However, it must be pointed out that petitioner's primary cause of action is for a sum of money with prayer for the issuance of ex-parte writs of attachment and replevin against Juniat, Winwood, Wingyan, and the person in possession of the motorized sewing machines and equipment.[51] Thus, the fact that the Chattel Mortgage executed in favor of petitioner was not notarized does not affect petitioner's cause of action. Petitioner only needed to show that the loan of Juniat, Wingyan and Winwood remains unpaid and that it is entitled to the issuance of the writs prayed for. Considering that writs of attachment and replevin were issued by the RTC,[52] Nonwoven had to prove that it has a better right of possession or ownership over the attached properties. This it failed to do.

A perusal of the Agreement dated May 9, 1992 clearly shows that the sewing machines, snap machines and boilers were pledged to Nonwoven by Juniat to guarantee his obligation. However, under Article 2096 of the Civil Code, "[a] pledge shall not take effect against third persons if a description of the thing pledged and the date of the pledge do not appear in a public instrument." Hence, just like the chattel mortgage executed in favor of petitioner, the pledge executed by Juniat in favor of Nonwoven cannot bind petitioner.

Neither can we sustain the finding of the CA that: "The machineries were ceded to THIRD PARTY NONWOVEN by way of dacion en pago, a contract later entered into by WINWOOD/WINGYAN and THIRD PARTY NONWOVEN." [53] As aptly pointed out by petitioner, no evidence was presented by Nonwoven to show that the attached properties were subsequently sold to it by way of a dacion en pago. Also, there is nothing in the Agreement dated May 9, 1992 to indicate that the motorized sewing machines, snap machines and boilers were ceded to Nonwoven as payment for the Wingyan's and Winwood's obligation. It bears stressing that there can be no transfer of ownership if the delivery of the property to the creditor is by way of security.[54] In fact, in case of doubt as to whether a transaction is one of pledge or dacion en pago, the presumption is that it is a pledge as this involves a lesser transmission of rights and interests.[55]

In view of the foregoing, we are constrained to reverse the ruling of the CA. Nonwoven is not entitled to the proceeds of the sale of the attached properties because it failed to show that it has a better title over the same.

WHEREFORE, the petition is hereby GRANTED. The assailed June 23, 2005 Decision and the February 9, 2006 Resolution of the Court of Appeals in CA-G.R. CV No. 66392 are hereby REVERSED and SET ASIDE. The May 20, 1999 Decision of the Regional Trial Court of Makati, Branch 145, is hereby REINSTATED and AFFIRMED.

SO ORDERED.

Corona, C.J., (Chairperson), Leonardo-De Castro, Bersamin, and Villarama, Jr. JJ., concur.

[*] Also spelled as Allan and Allain in some parts of the records.

[1] Article 2096 of the Civil Code provides:

A pledge shall not take effect against third persons if a description of the thing pledged and the date of the pledge do not appear in a public instrument.

[2] Rollo, pp. 11-91 with Annexes "A" to "E" inclusive.

[3] Id. at 52-62; penned by Associate Justice Vicente Q. Roxas and concurred in by Associate Justices Portia Aliño-Hormachuelos and Juan Q. Enriquez, Jr.

[4] Id. at 63-64; penned by Associate Justice Vicente Q. Roxas and concurred in by Associate Justices Portia Aliño-Hormachuelos and Juan Q. Enriquez, Jr.

[5] Id. at 15.

[6] Id. 16.

[7] Id.

[8] CA rollo, p. 31.

[9] Records, pp. 1-9.

[10] Rollo, pp. 54-55.

[11] Records, pp. 749-750.

[12] Id. at 751-754.

[13] Rollo, pp. 65-66.

[14] Records, pp. 755-758.

[15] Rollo, p. 66.

[16] Id. at 55.

[17] Id.

[18] Id.

[19] Id. at 66.

[20] Id.

[21] Records, pp. 110-120.

[22] Id. at 121.

[23] Id. at 113.

[24] Rollo, p. 67.

[25] Records, pp. 357-359.

[26] Rollo, p. 56

[27] Id.

[28] Id. at 57.

[29] Id. at 70; The case was re-raffled to Branch 145 of the RTC of Makati as Presiding Judge Francisco X. Velez

of Branch 57 inhibited himself from the case.

[30] Id. at 65-76; penned by Acting Presiding Judge Oscar B. Pimentel.

[31] Id. at 74.

[32] Id.

[33] Id. at 75-76.

[34] Records, pp. 1081-1094.

[35] Rollo, p. 77.

[36] Id. at 59-61.

[37] Id. 61-62.

[38] Id.

[39] Id. at 78-87.

[40] Id. at 63-64.

[41] Id. at 283-284.

[42] Id. at 290-291.

[43] Id. at 287-293.

[44] Id. at 286-287.

[45] Art. 1544. If the same thing should have been sold to different vendees, the ownership shall be transferred to the person who may have first taken possession thereof in good faith, if it should be movable property.

Should it be immovable property, the ownership shall belong to the person acquiring it who in good faith first recorded it in the Registry of Property.

Should there be no inscription, the ownership shall pertain to the person who in good faith was first in the possession; and, in the absence thereof, to the person who presents the oldest title, provided there is good faith.

[46] Rollo, pp. 257.

[47] Id. at 257-258.

[48] Id. at 252.

[49] Records, p. 121.

[50] Civil Code, Art. 2125. In addition to the requisites stated in Article 2085, it is indispensable, in order that a mortgage may be validly constituted, that the document in which it appears be recorded in the Registry of Property. If the instrument is not recorded, the mortgage is nevertheless binding between the parties.

The persons in whose favor the law establishes a mortgage have no other right than to demand the execution and the recording of the document in which the mortgage is formalized.

[51] Records, pp. 1-9.

[52] Rollo, p. 66.

[53] Id. at 61.

[54] Fort Bonifacio Development Corporation v. Yllas Lending Corporation, G.R. No. 158997, October 6, 2008, 567 SCRA 454, 465.

[55] Lopez v. Court of Appeals, 200 Phil. 150, 164 (1982).

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